ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author:	Cogdill	Analyst:	Angela Raygoza	Bill Number:	SBX1 21
Related Bills:	See Legislative History	Telephone:	845-7814	Introduced Date:	October 11, 2007
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Qualified Medical Care Professionals Credit

SUMMARY

This bill would allow an income tax credit for medical care professionals who provide medical services in rural communities.

PURPOSE OF THE BILL

It appears the intent of this bill is to create a financial incentive to encourage doctors and nurses to provide medical services in rural areas.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and specifically operative for taxable years beginning on or after January 1, 2008.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing state and federal laws provide various tax credits designed to provide tax relief for taxpayers who incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they may not otherwise undertake.

THIS BILL

For each taxable year beginning on or after January 1, 2008, this bill would allow a personal income tax credit against the "net tax," as defined, for an individual who is a qualified medical care professional in an amount equal to 25% of the "net tax."

Board Position:			Department Director	Date
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The following terms are defined:

- "Qualified medical care professional" is defined as any individual licensed as a healing arts practitioner under Division 2 (commencing with Section 500) of the Business and Professions Code, who provides medical services in a rural area.

- "Rural area" is defined as any open country or any place, town, village, or city, and associated places that has either of the following: (1) a population of not more than 10,000, (2) a population of not more than 20,000 and is located in a non-metropolitan area, or (3) a standard metropolitan area in this state where the population is not more than 20,000 and has rural characteristics.

This bill would provide that any unused credit may be carried forward until exhausted.

IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

The term "qualified medical care professional" is defined using the term "healing arts practitioner." "Healing arts professional" is used in the Business and Professional Code with broad definition that could be interpreted to include veterinarians, social workers, registered dispensing opticians, hearing aid dispensers, acupuncturists, psychologists, lab technicians, and pharmacists. Additionally, the bill broadly defines the term "rural area" and fails to define "medical services." The lack of definitions for key terms can lead to disputes between the department and taxpayers. The author may wish to narrow the definition for "medical care professional" and "rural area" and provide a definition for "medical services" to ensure the intent is satisfied.

This bill lacks criterion for how long or to what extent the medical care professional must provide medical service in the rural area to qualify for the credit. The medical professional could qualify for the credit for a full tax year by providing service on the last day of the tax year, even if that service consisted of only being "on-call." The author may wish to specify a minimum period during which the medical professional must provide medical services in the rural area to ensure that the credit is effective.

LEGISLATIVE HISTORY

SBX1 20 (Runner, 2007) would provide an income tax credit for primary care providers. This bill is currently in the Senate Health Committee.

SB 1026 (Calderon, 2007) would have provided an income tax credit for a "qualified health care provider" in an amount equal to the amount paid or incurred during a taxable year to provide health care to residents of the state whose health care is not covered by a health care service plan or health insurance. This bill was held in the Senate Health Committee.

AB 293 (Maze, 2005/2006) would have allowed an income tax credit for doctors that treat Medi-Cal beneficiaries in specified counties. AB 218 (Maze, 2005/2006) was identical to this bill. AB 218 and AB 293 failed to pass out of the Assembly Revenue and Taxation Committee.

AB 2164 (Cogdill, 2001/2002) would provide an income tax credit for medical care professionals who work in rural communities. This bill failed to pass out of the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

Review of *Florida, Illinois, Massachusetts, Michigan, Minnesota*, and *New York* laws found no comparable tax credits. These states were reviewed because of their similarities between California's income tax laws and their tax laws.

FISCAL IMPACT

The present forms have limited space available for additional lines. If these changes, along with other pending legislation, increase the forms from two to three pages, the department would incur costs of over $2 million for revising the forms and instructions, printing, systems changes, and processing.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue losses:

Estimated Revenue Impact of SBX1 21 Effective for Tax Years BOA 1/1/2008 Assumed Immediate Enactment ($ in Millions)		
2007/08	2008/09	2009/10
-$10	-$65	-$65

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

The revenue impact of this bill is driven by the number of qualified medical care professionals who provide medical services within rural neighborhoods and their total taxable income. This estimate makes the following assumptions: (1) qualified healthcare services include those performed within and outside of California, (2) professionals who provide services for just one day would qualify for the credit, and (3) the credit would be based on all income earned by the taxpayer, not just that earned by providing medical services within a rural area.

The Federal Bureau of Labor Statistics indicates that the Healthcare Practitioners & Technical Occupations within the state total 1.2 million individuals, who, on average earn an annual salary of $76,500. This estimate assumes that 1 million individuals would qualify as a licensed Healing Arts Professional and that 7% or 70,000 professionals (1 million x 7% = 70,000) would provide healthcare services in rural areas inside and outside of California.

The average annual salary of $76,500 is increased by 10% twice to approximately $92,500 ($76,500 x 1.10 x 1.10 = approximately $92,500) to account for the following: (1) all other income earned by the healthcare professionals and (2) income earned by other individuals included in jointly filed returns. Taking into consideration the difference between earned income and taxable income, the average income of $92,500 is reduced by 10% to approximately $83,000 ($92,500 x .90 = approximately $83,000). Applying an average tax rate of 4% to this income results in tax liability of approximately $3,300 ($83,000 x 4% = approximately $3,300). Because the credit is based on net tax, the 25% credit amount on average totals approximately $830 ($3,300 x 25% = approximately $830) and would be used in full each year.

Multiplying the above referenced 70,000 healthcare professionals by the tax benefit of $830 results in an annual revenue impact of approximately $58 million (70,000 qualified professionals x $830 tax benefit = approximately $58 million) for taxable year 2008. To reflect changes in estimate payments, $10 million of the credits generated during 2008 will impact fiscal year 2007-08. Calendar year estimates have been converted to fiscal cash flow estimates. In addition to altered estimate payments, the revenue impact in the chart includes a 10% annual growth in credits due to increased participation and anticipated changes in estimate payments.

POLICY CONCERNS

The “net tax” credit would be allowed whether 100% of the taxpayer’s taxable income is exclusive to medical services or if 10% of the income is from those services. There is a lack of correlation between the amount of the benefit given, the 25% net tax credit, and the unspecified amount of medical services provided so as long as it is provided in a “rural area.

This credit would not be limited to medical professionals that work in rural areas in California; the service could be provided to a rural area in another state or country. Therefore, the credit would be allowed to any qualified medical care professional providing any medical services in a rural area within or without this state and applying it to a California tax liability.

This bill lacks a sunset date. Sunset dates generally are provided to allow periodic review of the effectiveness of the credit by the Legislature.

This bill would allow for an unlimited carryover period. Consequently, the department would be required to retain the carryover on the tax forms indefinitely. Recent credits have been enacted with a carryover period limitation because experience shows credits typically are exhausted within eight years of being earned.

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